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NATIONAL DAIRY

PRODUCTS

CORPORATION

THE MARK OF SEALTEST SUPERVISED PRODUCTS

Annual Report 1942

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Proxies for the Annual Meeting of Stockholders to be held on April 15, 1943, will be requested and the proxy statement will be sent on or about March 9, 1943, to stockholders of record on February 27, 1943.

Annual Report · 1942

NATIONAL DAIRY PRODUCTS CORPORATION

Dedicated to the wider use and better understanding of dairy products as human food . . . as a base for the development of new products and materials . . . as a source of health and enduring progress on the farms and in the towns and cities of America.

230 Park Avenue, New York, N. Y.

DIRECTORS

F. J. ANDRE
President, Sheffield Farms Company, Inc.,
New York

F. J. BAHL
President, The Tri-State Butter Company,
Cincinnati

EDGAR N. BRAWNER
President, Chestnut Farms—
Chevy Chase Dairy Company,
Washington, D. C.

HENRY W. BREYER, JR.
Director, Breyer Ice Cream Company,
Philadelphia

FREDERICK J. BRIDGES
President, Hydrox Corporation,
Chicago

JAMES BRUCE
Vice-President

CHARLES C. CABOT
Attorney,
Boston

BYRON C. FOY
Director, *Chrysler Corporation;
At present Lieutenant Colonel, U. S. Army

JOSEPH GILFILLAN
Attorney,
Philadelphia

ROBERT S. GORDON
General Counsel

B. S. HALSEY
Vice-President, Sheffield Farms Company, Inc.,
New York

H. C. HORNEMAN
President, Sugar Creek Creamery Company,
Danville

VERNON F. HOVEY
President, General Ice Cream Corporation,
Schenectady

J. L. KRAFT
President, Kraft Cheese Company,
Chicago

JOHN H. KRAFT
Executive Vice-President, Kraft Cheese Company,
Chicago

B. M. LIDE, JR.
President, St. Louis Dairy Company,
St. Louis

ELMER J. MATHER
Vice-President

THOS. H. MCINNERNEY
Chairman of the Board

P. P. MILLER
Vice-President, General Ice Cream Corporation,
Schenectady

EDWARD E. RIECK
Chairman of Board, Rieck-McJunkin Dairy Company,
Pittsburgh

HENDERSON SUPPLEE, JR.
President, Supplee-Wills-Jones Milk Company,
Philadelphia

L. A. VAN BOMEL
President

H. C. VON ELM
Vice-Chairman of Board of
*Manufacturers Trust Company,
New York

SIDNEY J. WEINBERG
Partner, *Goldman, Sachs & Co.;
At present Assistant to the Chairman,
War Production Board,
Washington, D. C.

H. BURTON WILKERSON
President, Nashville Pure Milk Company,
Nashville

Companies named above are subsidiaries of National Dairy Products Corporation, except those marked with an asterisk.

OFFICERS

THOS. H. MCINNERNEY, *Chairman of the Board* L. A. VAN BOMEL, *President*

FREDERICK J. BRIDGES . . . *Vice-President*
VERNON F. HOVEY . . . . . *Vice-President*
THOS. K. CARNES . . . . . *Comptroller*
ROBERT S. GORDON . . . *General Counsel*
G. W. MCGHEE . . . . *Assistant Secretary*
JAMES BRUCE . . . . . *Vice-President*
ELMER J. MATHER . . . . . *Vice-President*
GEORGE H. RUTHERFORD . . . . *Treasurer*
REED HARTEL . . . . . *Secretary*
A. S. ARONSON . . . . *Assistant Treasurer*

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EXECUTIVE COMMITTEE
OF THE BOARD OF DIRECTORS

L. A. VAN BOMEL, *Chairman*

F. J. ANDRE
JAMES BRUCE
BYRON C. FOY
JOSEPH GILFILLAN
J. L. KRAFT or JOHN H. KRAFT, *Alternate*
THOS. H. MCINNERNEY
ELMER J. MATHER
SIDNEY J. WEINBERG

•

OPERATING COMMITTEE

L. A. VAN BOMEL, *Chairman*

F. J. ANDRE
EDGAR N. BRAWNER
FREDERICK J. BRIDGES
THOS. K. CARNES
CHRISTIE E. CUDDEBACK
H. C. HORNEMAN
VERNON F. HOVEY
JOHN H. KRAFT
THOS. H. MCINNERNEY
ELMER J. MATHER
CLYDE H. SHAFFER
E. E. STEWART
HENDERSON SUPPLEE, JR.
RAYMOND J. WISE

Members of this committee are executives of National Dairy Products Corporation or subsidiary companies and are appointed by the Board of Directors.

Transfer Agent
MANUFACTURERS TRUST COMPANY
New York, N. Y.

Registrar
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, New York, N. Y.

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SULLIVAN & CROMWELL, *Counsel*

•

ARTHUR ANDERSEN & CO., *Auditors*

COMPARATIVE SUMMARY

(EXCLUDING FOREIGN SUBSIDIARIES)

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	1942	1941	1940
Sales	$562,451,000	$431,049,000	$347,410,000
Material Costs	349,814,000	249,284,000	185,104,000
Payrolls	83,135,000	72,991,000	68,098,000
Direct Federal, State and Local Taxes	25,453,000	15,696,000	9,984,000
Provision for Possible Future Inventory Adjustments and Other Contingencies	3,900,000	3,600,000	None
Net Profit Transferred to Earned Surplus	12,221,000	12,334,000	11,094,000
Net Profit Per Share After Deducting Reserves	1.95	1.97	1.66
Average Number of Employees	38,126	36,697	35,565
Number of Common Stockholders	68,798	68,820	69,264

TO THE STOCKHOLDERS OF NATIONAL DAIRY PRODUCTS CORPORATION

Reflecting the unprecedented economic, industrial and military expansion of an America aroused to total war, the dollar sales were nearly one-third greater in 1942 than in 1941, reaching the total of $562,000,000. But because of the greatly increased cost of wartime operation and higher taxes, net profit, after deducting reserves, declined slightly—to $1.95 per share of common stock, as compared with $1.97 in 1941. In 1942 our net earnings were 2 2/10 cents on each dollar of sales, compared with 2 9/10 cents in 1941.

No business can or should measure its progress solely in terms of figures on a balance sheet. History will look back on 1942 as one of the most crucial years the world has ever known, an hour when civilization, as free people know it, hung in the balance. The role of every business, like that of every citizen, should be interpreted only in terms of usefulness in time of need.

Within our own borders and everywhere on the earth, men of good-will look to the United States for two things: Fighting men, of course; and, equally important, production to make them and their allies strong in battle. That this production may be achieved requires that the health of the civilian population be better than ever before.

If, at last, the scales are beginning to tip in our favor, it is because the gravity of the situation demonstrated the basic American character that founded our nation and made it great. It is because American productive genius is not a myth. In the United States, agriculture, business and industry "know how" better than anywhere else in the world. And, today they are putting that knowledge to its most effective use.

In this great task, your Company is doing its part. We are grateful that the nature of our business—the processing and distribution of essential food products—makes our contribution important.

GREATEST VOLUME IN HISTORY

In 1942 your Company sold the greatest volume in our history. The volume of all our major products, even exclusive of Government business, increased over the preceding year.

Percentage increases in dollar sales by major classification of products were: Milk, 16 per cent; butter, 31 per cent; cheese, 39 per cent; ice cream, 31 per cent, and miscellaneous products 45 per cent. The growing appreciation of ice cream's value as a food was reflected in the accelerated demand for this product.

Deliveries to the Army, Navy, Marine and Coast Guard training camps, and to the Government for shipment to our armed forces and allies overseas, amounted to approximately one-eighth of our dollar sales. They included 29 million quarts of milk, 4 million gallons of ice cream, 127 million pounds of cheese, 850 thousand gallons of salad dressing, 40 million pounds of powdered milk, 2 million cases of evaporated milk and 6 million pounds of butter.

The increased dollar sales were due more to the rise in the volume of products sold than to higher selling prices. Very often, in fact, our companies were "squeezed" between inflexible selling prices and ever-rising costs,

resulting, in many instances, in inadequate profit margins and an actual loss in the case of New York City milk operations.

AWARDED ARMY-NAVY "E"

The first Army-Navy "E" award for excellence in production in the food industry went to our Kraft plants at Green Bay, Wisconsin; Freeport, Illinois, and Decatur, Indiana. We look upon this award not only as an honor, but as a responsibility to maintain the high standards which it represents.

The award was made because of our development, at the special request of the Government, of preserved butter spreads, 16 million pounds of which were delivered for shipment overseas, and our production of tinned cheese for the armed forces. The preserved butter—"Carter Spread," "Army Spread" and "Navy Spread"—are unfamiliar to the public, but are known widely among our soldiers and sailors. Made principally from butter, they are invaluable in the tropics because of their high melting point and keeping qualities.

PAID SUPPLIERS $350,000,000

In 1942 we paid farmers and other suppliers of materials a total of $350,000,000. This represents 62 cents on each dollar of sales, compared with 58 cents on each dollar of sales in 1941. Payrolls aggregated $83,000,000, as compared with $73,000,000 in the previous year.

Our total tax expense in 1942 was $25,400,000. Of this amount, $18,500,000 was provided for Federal income and excess profits taxes. Our 1941 Federal income tax provision was $8,950,000.

Our expenditures for property, plant and equipment were $8,000,000, compared with $15,200,000 in 1941. To keep our plants functioning properly and efficiently, we spent $12,200,000 for repairs (including milk bottle replacements), compared with $11,000,000 in 1941. When the war is won, there will be need for considerable replacement of equipment which has been kept in use beyond its normal life.

In 1941 we set aside a reserve of $3,600,000 for possible future inventory adjustments. This reserve was expanded in 1942 and a further amount of $3,900,000 was added to cover possible losses or unusual expenses that may arise from the war, making a total reserve of $7,500,000. The advisability of this action will be readily recognized.

Notes payable to banks were reduced by $11,718,000, so that only $1,757,000 were outstanding on December 31, 1942. In addition, the company has anticipated its entire estimated Federal income and excess profits tax liability by the purchase of $18,500,000 United States Treasury Tax Notes, which have been deducted from the tax liability on the balance sheet. As shown on the balance sheet, the ratio of current assets to current liabilities at the end of the year was 3.45 to 1, as compared with 2.05 to 1 the previous year.

LITIGATION

The anti-trust litigation described in our last annual report still was pending at the end of the year.

During the year the Federal Grand Jury at Chicago found two indictments against the cheese industry, both of which include certain of our subsidiaries and one the Company itself. These indictments attacked the proceedings of the Wisconsin Cheese Exchange and the business practice of dealing in American and brick cheeses at prices based on Wisconsin Cheese Exchange quotations. Since July, 1941, the United States Government has been the principal, if not the only, purchaser of cheese on the Wisconsin Cheese Exchange. If this Exchange has transgressed the Federal anti-trust

laws, our affected subsidiaries will make appropriate changes in their arrangements in connection with these types of cheeses.

PROMOTION AND ADVERTISING

For some time we have felt that the public should be better acquainted with National Dairy and the position it occupies in our national life. Although our total advertising expenditures in 1942 were lower than in the previous year, we inaugurated new public information activities, utilizing space in magazines in selected fields.

You probably have seen some of these public messages from your Company. We hope you will look for them in the future and call them to the attention of your friends. There are many indications that they are having a considerable effect, not only in explaining the services rendered to the public by National Dairy and its affiliated companies but in creating an increased public interest in and acceptance of dairy products.

National Dairy's nation-wide radio programs — "Kraft Music Hall," Kraft's "The Great Gildersleeve" and the "Sealtest Village Store"—had an important influence on sales, and often were used as vehicles for Government appeals.

From the beginning, your Company has recognized the value of research to the dairy industry, and the corresponding importance of dairy research to the country. Special attention has been given to the development of new products by our laboratories. These laboratories are manned by a distinguished staff of scientists, experts in their special fields of research.

The war has intensified the need for this work, and demonstrated its practicability. We are working on many projects which show promise. Emphasis on research will not end with the war. The great problems of making milk available to more people and finding new uses for milk by-products in a peacetime world will be with us for many years. To the solving of these problems through research and the practical application of the findings of research, your Company will give continuing and increasing attention.

CONSERVING MEN, MATERIALS

Before Pearl Harbor your Company had given serious attention to the adjustment of its business to war conditions. Conservation of gasoline, rubber, materials and manpower, and the maintenance of fair prices and adequate delivery for the consuming public were major considerations from the start. Many of the measures subsequently advocated by the Government already had been taken by our companies. Other practical methods of conservation constantly are being sought and tested.

The Office of Defense Transportation requirements effective last June, calling for a 25 per cent reduction in mileage, made curtailed delivery necessary, and that was put into effect in those markets where labor co-operated.

Foreseeing the acute oil shortage, we started early to convert as many of our oil-burning plants as possible to coal, and in consequence were able to effect an estimated annual saving of nearly 4 million gallons of oil.

SPIRIT THAT WILL WIN

At the end of 1942 a total of 4,286 employees of National Dairy had gone into the armed forces. Nine have given their lives and two are missing in action. In tribute to them we have reproduced on the back cover of this report the service flag which hangs in the lobby of our main office.

We try to keep in touch with these men who have joined the military services, and we are proud of the fine spirit reflected in the letters

we receive from them. Following is a typical comment that shows why we are going to win this war:

"We begin the last week of our course of instruction at the Training Station tomorrow. I consider myself very fortunate in having been selected to be one of the group to attend this school, and only hope I've gotten enough out of it to do whatever job they assign to me as well as possible."

Our employees purchased approximately $3,000,000 worth of War Bonds, and by the end of the year 84 per cent were authorizing payroll deductions for this purpose.

The average number of employees during the year was 38,126. Their hard work and loyalty, contributing so much to our 1942 record volume of business, are greatly appreciated.

In 1942 substantial progress was made toward standardizing the incentive compensation to key employees of subsidiaries, following a general plan predicated on earnings recommended by the management of your Company. These payments are made within controlled limits and none of these arrangements constitutes commitments extending beyond the current year.

An analysis of the 68,798 stockholders of National Dairy, as of December 31, 1942, shows that the ownership of your Company is truly representative of the public it serves. The shares are distributed in every state in the Union and in many foreign countries. No one stockholder owns as much as 2 per cent of the shares outstanding.

Your Company's and the dairy industry's part in this war have been well begun. Ahead is the need to finish the job. The demand for dairy products in 1943 is expected to be greater than in 1942, a record-breaking year for the industry. The extent to which this demand is met depends upon the ability of the dairy farmer to increase production in the face of the serious handicaps confronting him. While some steps already have been taken to alleviate farm labor and equipment shortages, much remains to be done if milk production is to reach the necessary level. It is to be hoped the Government will deal effectively with this matter this year.

It is our responsibility, in this period of national emergency, to devote our energies to the task of helping to win the war. We shall make every effort to conserve vital materials and manpower, to hasten the development of new and improved products, and to supply the needs of the armed forces wherever they may be. At the same time, we shall continue to provide the fullest possible measure of service to the public, and to conduct the affairs of the Company in such a way as to safeguard its financial stability and to pave the way for an era of new growth and progress after the Victory has been won.

By Order of the Board of Directors:

THOS. H. MCINNERNEY
Chairman of the Board

L. A. VAN BOMEL
President

March 4, 1943.

Since our last report, we have been grieved by the death of Emmett J. M. Finneran, a director of your Company and director of sales and advertising, who had been a valued member of the organization for more than sixteen years.

AUDITORS' CERTIFICATE

To the Board of Directors and Stockholders of National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic subsidiary companies as of December 31, 1942, and the statements of consolidated profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year 1941. The procedures followed, with respect to the important items of the consolidated balance sheet, are commented on broadly in the following three paragraphs.

Cash in banks as shown by the records was reconciled with balances confirmed by the depositaries; working funds were confirmed to us by the custodians, and cash on hand was either counted or traced to subsequent deposits in bank accounts. Notes receivable, securities and other evidences of investments or loans, together with collateral therefor, held by the companies, were inspected and those held by depositaries or other custodians were confirmed by direct correspondence. Customers' ledgers and drivers' route books were test-checked and balanced with the general ledger control accounts. Our examination of the receivables included tests of balances by direct communication with the debtors to the extent we considered appropriate in the circumstances. The receivables were reviewed as to collectibility and, in our opinion, the reserves provided are adequate to cover losses which could be anticipated at the time of our examination.

Inventory records and procedures were reviewed and the methods followed by the companies in taking physical inventories were approved by us. We observed the taking of physical inventories by company employees at the more important locations and made test counts of selected items; merchandise in public warehouses was confirmed to us by direct correspondence with the warehouses. Clerical accuracy of the inventories was checked and we satisfied ourselves that the inventories were priced at cost (generally average cost) or market whichever lower by reference to invoices, cost records, trade journals, etc. We inspected authorizations, contracts, invoices, vouchers and other data in support of the principal additions to capital assets. The provisions for depreciation were reviewed and the amounts charged to profit and loss appeared to be reasonable.

Accounts payable were checked to voucher registers and other detail records, and were confirmed on a test basis by direct correspondence with creditors. Computations of accrued liabilities were checked and supporting data, such as payrolls, tax returns, etc., were reviewed. Shares of capital stock and the amount of debentures outstanding were confirmed to us by direct correspondence with the registrar and trustee. Insofar as we could ascertain within the scope of our examination, and as represented to us by the management, all known direct liabilities of the companies have been reflected in the consolidated balance sheet at December 31, 1942.

In our opinion, the accompanying consolidated balance sheet and the related statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic subsidiary companies consolidated at December 31, 1942, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 4, 1943.

ARTHUR ANDERSEN & CO.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1942		December 31, 1941	
CURRENT ASSETS:				
Cash		$ 17,027,644		$ 15,015,960
Receivables—				
Notes receivable	$ 489,915		$ 953,088	
Accounts receivable	25,780,451		28,018,975	
	$ 26,270,366		$ 28,972,063	
Less—Reserves for doubtful notes and accounts	2,442,185	23,828,181	2,164,289	26,807,774
Inventories of products and materials at cost (generally average cost) or market, whichever is lower		42,437,807		47,278,084
Miscellaneous supplies		7,972,098		8,059,661
Cash surrender value of life insurance		420,966		405,035
Total Current Assets		$ 91,686,696		$ 97,566,514
INVESTMENTS, ETC.:				
Miscellaneous investments, less reserve	$ 1,018,267		$ 860,330	
Cash on deposit with Debenture Fiscal Agent	17,166		None	
Domestic subsidiaries not consolidated	191,272		236,272	
Deposits with State Commissions, etc.	773,097		817,068	
Cabinet, fountain and equipment contracts, less reserve	800,985		1,362,236	
Loans to employees, less reserve	258,236		336,023	
Other notes and accounts receivable, less reserve	922,356	3,981,379	1,653,269	5,265,198
FOREIGN SUBSIDIARIES:				
Investments in and advances to—				
Canadian subsidiaries	$ 2,854,174		$ 2,598,592	
English, Argentine and Australian subsidiaries	4,315,393		4,274,360	
Continental European subsidiaries	1		1	
	$ 7,169,568		$ 6,872,953	
Less—Reserve for foreign investments and advances	2,739,633	4,429,935	1,899,419	4,973,534
PROPERTY, PLANT AND EQUIPMENT (Stated at cost, or as to certain properties at sound values as appraised as of dates of acquisition, plus additions at cost, less retirements and certain adjustments):				
Land	$ 14,630,083		$ 15,353,049	
Buildings, machinery and equipment	136,324,890		136,534,165	
	$150,954,973		$151,887,214	
Less—Reserves for depreciation	53,568,154	97,386,819	51,312,486	100,574,728
PREPAID AND DEFERRED ITEMS		1,051,138		750,034
GOODWILL		22,059,854		22,059,854
		$220,595,821		$231,189,862

(See Notes to Consolidated Financial Statements, page 14)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES	December 31, 1942		December 31, 1941	
CURRENT LIABILITIES:				
Notes payable		$ 1,757,012		$ 13,475,000
Serial Debentures maturing within one year		1,500,000		1,500,000
Accounts payable		17,698,642		18,426,286
Accrued liabilities		5,618,443		5,159,302
Provision for Federal income and excess profits taxes	$ 18,500,000		$ 8,950,000	
Less—U. S. Treasury tax notes, Series C	18,500,000	None	None	8,950,000
Total Current Liabilities		$ 26,574,097		$ 47,510,588
FUNDED DEBT:				
Serial Debentures (maturing semi-annually in the amount of $750,000 on June 1 and December 1 of each year through December 1, 1950, less $1,500,000 maturing within one year carried under current liabilities above)	$ 10,500,000		$ 12,000,000	
3¼% Debentures due 1960 (semi-annual purchase fund requirements $275,000 (minimum) through December 1, 1950, and $825,000 thereafter through June 1, 1960)	53,916,000	64,416,000	54,450,000	66,450,000
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARY COMPANIES		297,823		348,911
RESERVES FOR:				
Insurance	$ 828,029		$ 778,074	
Prior years' Federal and State taxes, etc.	3,888,409		3,223,763	
Possible future inventory adjustments and other contingencies	7,500,000	12,216,438	3,600,000	7,601,837
CAPITAL STOCK AND SURPLUS:				
Common stock—				
Authorized—8,000,000 shares without par value				
Issued—6,255,247 shares at stated value	$ 51,266,676		$ 51,266,676	
Capital surplus, per statement attached	2,230,338		2,155,045	
Earned surplus, per statement attached	63,594,449	117,091,463	55,856,805	109,278,526
		$220,595,821		$231,189,862

(See Notes to Consolidated Financial Statements, page 14)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS

	Year Ended December 31, 1942		Year Ended December 31, 1941	
Net Sales		$562,451,639		$431,049,646
Cost of Sales and Operating Expenses:				
Cost of products	$425,808,285		$310,273,515	
Delivery expense	57,111,265		53,321,430	
Selling expense	26,429,941		26,597,747	
Administrative and general expense	15,821,771	525,171,262	14,150,988	404,343,680
Operating profit		$ 37,280,377		$ 26,705,966
Other Income:				
Interest and dividends	$ 248,277		$ 289,776	
Purchase discounts	807,250		797,013	
Miscellaneous income	250,240	1,305,767	161,356	1,248,145
Total		$ 38,586,144		$ 27,954,111
Other Charges:				
Cost of past service retirement annuities	$ 416,153		$ 526,576	
Net loss on disposition of capital assets	1,123,158		122,850	
Miscellaneous charges	469,053	2,008,364	441,466	1,090,892
Net profit before interest on funded debt and provision for Federal income and excess profits taxes		$ 36,577,780		$ 26,863,219
Interest on Funded Debt		1,955,928		1,978,485
Net profit before provision for Federal income and excess profits taxes		$ 34,621,852		$ 24,884,734
Provision for Federal Income Taxes:				
Normal income tax and surtax	$ 10,400,000		$ 8,950,000	
Excess profits tax (less 10% credit of $900,000 for debt retirement)	8,100,000	18,500,000	None	8,950,000
Net profit (before deducting provision for possible future inventory adjustments and other contingencies)		$ 16,121,852		$ 15,934,734
Provision for possible future inventory adjustments and other contingencies		3,900,000		3,600,000
Balance transferred to earned surplus		$ 12,221,852		$ 12,334,734

(See Notes to Consolidated Financial Statements, page 14)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED EARNED SURPLUS AND CAPITAL SURPLUS

	Year Ended December 31, 1942		Year Ended December 31, 1941	
EARNED SURPLUS				
Earned surplus, at beginning of year	$ 55,856,805		$ 48,526,269	
Balance from statements of consolidated profit and loss	12,221,852	$ 68,078,657	12,334,734	$ 60,861,003
Dividends paid on common stock—80c per share (20c per share quarterly)		5,004,198		5,004,198
		$ 63,074,459		$ 55,856,805
Add:				
Restoration of certain property written down in 1939		519,990		None
Dividends received from foreign subsidiaries	$ 782,899		$ 715,929	
Less—Additions to reserve for foreign investments and advances	782,899	None	715,929	None
Earned surplus, at end of year, per balance sheets		$ 63,594,449		$ 55,856,805
CAPITAL SURPLUS				
Capital surplus, at beginning of year		$ 2,155,045		$ 2,192,431
Add—Adjustments with respect to acquisition of minority interest and goodwill purchased		75,293		*37,386*
Capital surplus, at end of year, per balance sheets		$ 2,230,338		$ 2,155,045

(See Notes to Consolidated Financial Statements, page 14)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements—December 31, 1942

(1) Provision for depreciation charged to costs and expenses for the years 1942 and 1941 aggregated $9,233,488 and $8,703,879, respectively. Repairs and maintenance (including replacement of milk bottles) for such years amounted to $12,237,007 and $10,969,974.

(2) The Corporation's Retirement Annuity Plan provides for the establishment of retirement annuities for eligible employees receiving fixed compensation exceeding $3,000 per annum. Employees electing to participate in the plan contribute currently with the companies. The companies' share is charged currently to Profit and Loss as paid. The cost of past service retirement annuities is borne by the companies and is payable in installments over a period estimated not to exceed 20 years from the effective date of the plan, March 1, 1941. The Corporation, however, has the privilege of paying a full year's cost for past service annuities in advance in any year, and this right was exercised in 1941 in full and in 1942 to the extent of the maximum deduction allowed for Federal income tax purposes. It is estimated that the aggregate cost of past service annuities not purchased at December 31,1942, would approximate $4,500,000. The Corporation reserves the right to change or discontinue the plan at any time.

(3) The Indenture under which the funded debt of the Corporation is outstanding provides in substance that cash dividends may be paid only if thereafter (a) consolidated earned surplus exceeds $35,000,000 (which sum is subject to adjustment in certain circumstances, including a reduction of $500,000 for each reduction of $1,000,000 in consolidated funded indebtedness below $70,000,000), and (b) consolidated tangible assets after deducting consolidated liabilities other than consolidated funded indebtedness shall be equal to at least 1¾ times the consolidated funded indebtedness. Certain of the terms used are defined in the Indenture.

(4) All domestic subsidiary companies have been included in the accompanying consolidated financial statements (except three minor companies in which a majority but not more than two-thirds of the capital stock is owned), and all foreign subsidiaries have been excluded from the consolidated financial statements. The net sales and the Corporation's equity in net profits for the year ended December 31, 1942, of subsidiaries located in Canada, England, Australia and Argentina aggregated $27,382,000 and $834,900, respectively (translated into terms of U. S. dollars at current rates of exchange on December 31, 1942). Cash dividends were received in 1942 from the Canadian and English subsidiaries in the amount of $450,450 and $332,450, respectively, which amounts have been added to the Reserve for Foreign Investments and Advances.

(5) Under the renegotiation provisions of the Sixth Supplemental National Defense Appropriation Act, as amended, certain of the companies' sales may be subject to renegotiation and the effect, if any, cannot be determined at this time. The management does not believe that profits realized from such sales have been excessive.

(6) Reserve for possible future inventory adjustments and other contingencies includes the balance of the reserve established at December 31, 1941, of $3,600,000 plus a further appropriation from income in 1942 of $3,900,000 as approved by the Board of Directors in recognition of possible losses or unusual expenses that may arise from the war.

(7) Contingent liabilities in respect of pending lawsuits and other claims are not believed by the companies to involve any substantial liability not already provided for in the Consolidated Balance Sheet.

COMPTROLLER'S CERTIFICATE

The balance sheets set forth on pages 10 and 11 and the related statements of profit and loss and surplus shown on pages 12 and 13 have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and consolidated domestic subsidiaries as of December 31, 1942, and December 31, 1941, and the operations for the years ended on such dates.

New York, N. Y., March 4, 1943

THOS. K. CARNES, *Comptroller.*

SUMMARY OF SOURCE AND APPLICATION OF FUNDS

FOR YEAR ENDED DECEMBER 31, 1942

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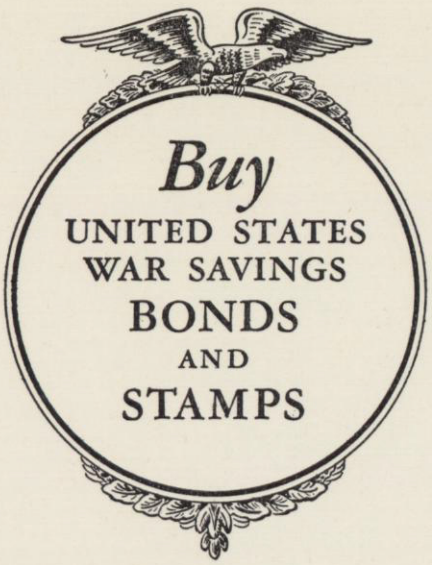
SOURCE OF FUNDS:

Balance per statement of consolidated profit and loss transferred to earned surplus	$12,221,852
Provision for depreciation	9,233,488
Provision for possible future inventory adjustments and other contingencies	3,900,000
Receipts from liquidation of miscellaneous assets (net)	4,031,828
Increase in liability for Federal income and excess profits taxes	9,550,000
Increase in reserves for insurance, prior years' Federal and State taxes, etc.	714,601
Decrease in accounts and notes receivable (net)	2,979,593
Decrease in inventories (net)	4,927,840
Total	$47,559,202

APPLICATION OF FUNDS:

Dividends on common stock	$ 5,004,198
Purchase of property, plant and equipment	8,022,829
Funded debt retired	2,034,000
Loans paid off	11,717,988
Decrease in liabilities for accounts payable and sundry accruals	268,503
Purchase of U. S. Treasury tax notes, Series C	18,500,000
Total	$45,547,518

INCREASE IN CASH	$ 2,011,684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